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SUMMARY:

The Spanish defense industry has been in a period of contraction and reorganization similar to the U.S., thus limiting the number and size of immediate opportunities for sale of U.S. defense equipment. However, Spanish interest in and respect for American-made defense items remains high. U.S. firms should consider this hiatus as an opportunity to lay the groundwork for potential sales in the future when the Spanish budgetary situation improves and military requirements are clearer.

In the last decade, the Spanish defense industry has undergone profound transformations. These changes have not only generated a new industrial panorama but have also created new relationships between governments and industries. There are many opportunities arising from both public and private projects where Spanish firms would welcome partnerships with U.S. high technology defense companies. For example, Spain´s heavy investment in infrastructure projects will present mayor opportunities for U.S. defense electronics manufacturers. In the past, public firms dominated the defense sector, but, with the Spanish government having allowed privatization, private firms now have the upper hand. The Spanish defense industry is in a position to face internationalization. Despite there being fewer firms, the ones that do exist are better equipped in terms of human and competitive resources, as well as technological capacities much more advanced than a decade ago. Still, Spain wishes to carryout sophisticated projects, it would only be possible with multinational collaboration.

In 1999, after four years of significant growth of Spanish exports of defense materials, industrial sales dropped 2%, to Pesetas 23.524,2 million (USD 150 million)∗. The growth of Spanish imports of defense materials dropped 6.3%, to Pesetas 63.657 million (USD 407 million)∗. Despite the decrease in the volume of Spanish exports and imports, concern is minimal considering that the numbers are superior to those registered during the crisis that negatively affected this sector during the first half of the 90s. In addition, the increased participation of Spanish firms -CASA and EN Santa Barbara- in industrial programs -EF 2000, Ariane, Eurocopter, Leopard- or EN Bazan´s commitment to the fabrication of five F-85 frigates to the Norwegian Navy, make evident that Spain has overcome the crisis. Furthermore, it proves that the Spanish defense industry is technologically advanced and is capable of participating in any multinational collaboration program.

The best prospects in the Spanish Military/Defense market are outlined below and fall under the following HS Codes:

HS	8526	Electronic support measures,
HS	8526	Forward looking infrared,
HS	8526	Electronic counter measures,
HS	8526	Night combat capability,
HS	9014	Mine-hunting/ mine warfare,
HS	8531	Electro-optical systems,
HS	8526	Radar and air traffic control,
HS	8525	Communications, satellite communications, radio,
HS	9014	Sensors,
HS	8525	Transmitters and receivers for radiotelegraphy/radiotelephony,
HS	8527	Parts, not specified, for air navigation systems,
HS	8529	Antennae, systems and subsystems,
HS	8531	LCD and Led displays and related apparatus,
HS	8471	Computers for navigation

However, the complexity of the Military/Defense Procurement Program is such that the first step that any U.S. company must take in Spain is to contact an intermediary.

OVERVIEW:

The current review of Spain's national defense needs and the identification of new missions may generate mid-term political support for a leaner, better trained military force with new, state of the art weapons. Any new acquisition needs will likely be presented to the public not only in terms of their contribution to the national defense, but also in terms of the resulting employment and manufacturing opportunities for the Spanish economy.

In 2001, the Ministry of Defense disposed of Pesetas 1.008,831,499,000 (USD 5.30 billion)∗ according to the states General Budget Law. This is the first year that the Spanish defense budget exceeds one billion Pesetas. This is a 4.5% increase over the previous year, which counted with Pesetas 965,405 million (USD 5.33 billion)∗.

Professionalization of the armed forces, modernization of weapons and materials, and Spain´s full integration into NATO´s military structure are top priorities of the current government. The budget is directed to bettering the quality of life of the troops (infrastructure, education, social services, etc.), modernizing the arsenal, fomenting the Spanish citizens consciousness of defense, and consolidating Spain´s presence in international organizations regarding peace and security. It is expected that by the year 2002, the number of professional soldiers will grow from 85,000 to 102,000, the full professionalization of the armed force will be completed, and the traditional draft system will be entirely abolished. In 2001, the Spanish Armed Forces allocated the defense budget among the Spanish military services as follows: Army, 39.2%; Navy, 17.2%; Air Force, 16.8%; EMAD (Estado Mayor de Defensa)/Órgano Central, 26.8%.

In the past, the defense industry was dominated by four publicly owned firms; BAZAN (naval constructions), CASA (aerospace), Santa Barbara (armoured vehicles, artillery, ammunition, and small arms), and INDRA (defense electronics). These companies, which the government is privatizing, represent 75 percent of the total defense industry sales and a similar share of employment.

Under existing regulations, foreign companies cannot acquire more than 25 percent interest in any Spanish defense industry company without government approval. However, a case-by-case basis, equity of up to 49 percent may be granted.

Traditionally, U.S. defense companies supplied the Spanish Armed Forces with all major weapon systems through the Foreign Military Sales (FMS) program. Over the past 10-12 years however, European defense companies such as Aerospatiale, GEC-Marconi and Alenia have entered the Spanish defense market with the support of their respective governments. As a result, U.S. firms face fierce competition for every sale. Spain has also looked to Israel for specialized electronic warfare equipment.

A) U.S.-SPAIN RELATIONS:

On January 11, 2001, the U.S. and Spain signed a Joint Declaration that recalled a successful past relationship between both countries and laid out a road map for expanded cooperation; political consultation, defense, economics, science and technology were some of those areas discussed.

Political Cooperation

The Joint Declaration recognized that Spain is a strong ally, sharing responsibilities with NATO, the UN, OECD, WTO, and OSCE. The U.S. and Spain have also cooperated on European, Middle Eastern, Mediterranean and Latin American issues.

Economic Ties

Spain has one of the world's ten largest developed economies and the 25th largest market for U.S. exports. Seventy percent of Spain´s total exports go to the EU; five percent is directed to the U.S. In addition, the United States is the largest foreign investor in Spain.

Military Cooperation

Defense relations are managed under the bilateral agreement on Defense Cooperation signed in 1989. Under this accord, the Spanish military authorized the United States use of certain facilities at Spanish military installations. The Joint Declaration also called for the establishment of a bilateral, high-level defense committee as a vehicle for policy consultations.

Scientific, Technological and Space Cooperation
The U.S. and Spain jointly operate a satellite tracking station near Madrid that supports earth orbital, lunar, and planetary exploration missions. This tracking system is one of the three largest tracking and data acquisition complexes supporting NASA operations.

In 1994, the U.S. and Spain signed an agreement on Scientific and Technological Cooperation. In the period 1998-2000, $3 million in grant funds supported joint research and development projects, and numerous memoranda of understanding were signed to promote ongoing collaboration between U.S. and Spanish technical agencies.

B) CURRENT SPANISH-AMERICAN INDUSTRIAL DEFENSE PROGRAMS:

The cooperation agreements between Spain and the United States have served to reinforce their bilateral relationship. From a commercial point of view, these connections with Spain will not only benefit multinational firms who wish to do business in that country but also small and medium-sized companies too.

Lockheed Martin:
The relationship between Lockheed Martin and Spain started in the fifties with the delivery of the T-33 training reactors to the Spanish Air Force. Today, this relationship continues to grow thanks to a strong collaboration from the Spanish defense industry in complex projects. The agreement reached between various firms on the fabrication of the F-85 frigates is an ideal example of this. This type of project demonstrates how a program of this nature reinforces the ties between the Armada and the U.S. Navy, and allows for more cooperation among Spanish and American industries.

Frigates:
In 2000, Spain launched their first F-100 frigate (full-rigged ship) and signed a contract with Norway for the fabrication of five F-85 frigates. This contract constitutes the biggest exporting success in history for the Spanish defense industry, not only for its volume but also for the level of technology of the product that is being exported.

The F-100 Program started in 1997 when the Ministry of Defense and the Armada chose Lockheed Martin to administer *Aegis,* a combat system which includes the SPY-1D and MK-41 vertical launching system, for the four new vessels which IZAR, a new merger formed by EN Bazan (military shipyards) and Astilleros Españoles (civil shipyards), is currently building.

Other firms such as INDRA and RYMSA have played an important role in the F-100 program. They have provided numerous subsystems and components to the *Aegis* Program. These new alliances with Lockheed Martin have allowed Spanish companies to become noticeable providers to the U.S. Navy, opening an important technological market for the Spanish defense industry. Furthermore, these new connections will allow new U.S. companies to become active participants in the frigate program.

General Dynamics:
In April 2000, Santa Barbara was privatized and sold to the United States firm General Dynamics. The German firm, Krauss Maffei, who also sought the acquisition of Santa Barbara, believed that purchase to be more of a strategic operation rather than a commercial one, given that with their buy, General Dynamics would obtain first hand knowledge of the fabrication of the Leopard 2, a combat vehicle constructed by Krauss Maffei, and assembled by the Spanish firm. However, on March 21, 2001, Santa Barbara signed a contract with Krauss Maffei to protect the Leopard program technology. That agreement signified a total safeguard of the Leopard program. From now until 2009, the construction of 235 combat cars and 463 armor-plated vehicles, which will be supplied by Santa Barbara, for the Spanish military, is anticipated. This program is valued at 1.953 million Euros (325.000 million Pesetas). The Leopard Program will allow U.S. companies to cooperate with Santa Barbara, giving these firms an excellent opportunity to increase their exports.

S-80 Submarine:
Currently Spain is working on a project to build a new submarine, the S-80, from the *Scorpene* family. The S-80 will substitute the S-60 units when their operational life expectancy expires, which is estimated in 25 years. The S-80 vessel is built specifically for oceanic, antisubmarine and anti-surface missions. It will be incorporating the latest concepts and technologies. Lockheed Martin is bidding on this new activity. This project constitutes an important possibility for American firms to partake in this plan, working collaboratively with the Spanish firm IZAR and Lockheed Martin.

C) SPANISH COOPERATION WITH EUROPEAN PARTNERS

Eurofighter:
Another agreement that the Spanish military industry is crystallizing is the creation of the Compañia Española de Misiles. Indra, IZAR, Matra, BAe Systems and EADS-CASA will take part in the development of this project. This new group, situated in Spain, would build missiles intended for the combat plane Eurofighter. CASA´s active participation in the creation of an aeronautical and defense group with EADS, the main component in that process, is an ideal example of Spain´s accelerated process towards integration with the European industrial defense sector.

The EF-2000 Eurofighter, which is being developed by Germany, Great Britain, Italy and Spain, is a combat plane with superior air and land attack capabilities. The Eurofighter project began in 1977 with the intention of creating a state-of-the-art combat jet for Europe. Spain joined the program in 1983. Of the 620 planes that the four participating countries have committed to fabricate, 87 will belong to Spain.

The Integrated Logistic Support (ILS) framework of the Eurofighter will require an array of highly advanced technological support programs as well as other sophisticated systems such as simulators, Ground Support Systems (GSS), and a maintenance systems for the software. One of Spain´s key interests is in the domain of simulators, given that it is a renowned leader in that field. The simulation program is known as ASTA (Aircrew Synthetic Training Aids). It consists of 2 parts, Weapons System Simulation (WSS), and the Simulator Specific System (SSS). CASA, DASA, Alenia, and BAe, the main contractors of the Eurofighter will carry out the WSS. The Eurofighter Simulation System

(ESS), made up of Indra (Spain), Thomson Training and Simulation Limited (England), Meteor (Italy), STN Atlas and CAE (Germany), will be responsible for the development and integration of the SSS into the WSS. This group will be directed in Spain.

An important aspect of the Eurofighter program is the possibility of selling the plane to third parties. This option not only stimulates political interest in the four countries associated with the plane but also enhances the economic interests of the participating firms. Many nations have already shown an interest for the Eurofighter Typhoon, the commercial name given to the EF-2000. Norway, South Korea, Australia and Brazil, among others, have requested information regarding the Eurofighter Typhoon.
After intense promotions of the plane, on March 8, 2000, Greece decided to import 60 planes.

PROCUREMENT/MARKET ACCESS

The Spanish Military/Defense Program offers additional incentives for U.S. companies to sell in the Spanish market. However, there are certain procurement procedures that should be taken into consideration by U.S. companies wishing to sell in Spain.

For projects over $20 million dollars, a government approval is required before entering into the tender process. This situation usually affects the larger U.S. corporations.

For smaller tenders, U.S. companies have excellent opportunities to compete in the yearly procurement needs of the Spanish Military/Defense market, which is open to bids made by small and medium-sized U.S. firms. The regional headquarters and other military facilities throughout the country allocate the procurements.

In both cases, the complexity of the Military Defense Procurement Program is such that the first step that any U.S. company must take in Spain is to contract an intermediary. This representative is an essential guide to perform two important functions: 1) Carry out the conformity and registration process by which the Spanish Ministry of Defense approves any product related to the defense procurement; and 2) Participate in the tender process which requires a thorough understanding of and a strong relationship with the various procurement entities. The Spanish Defense Ministry requires that all the information that has to be provided for the conformity process of products and procurement tenders have to be presented in the Spanish Language. Therefore, the contracting of a professional agent should be the first step for any American company, large, medium or small to take, if they are interested in exporting their Military/Defense products to Spain.

The best prospects in Military/Defense are described below, and fall under the following HS codes:

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HS	8526	Forward looking infrared,
HS	8526	Electronic counter measures,
HS	8526	Night combat capability,
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HS	8531	Electro-optical systems,

HS	8526	Radar and air traffic control,
HS	8525	Communications, satellite communications, radio,
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HS	8525	Transmitters and receivers for radiotelegraphy/radiotelephony,
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HS	8471	Computers for navigation

Sources: This report is based on industry sources and official sources such as Revista Española de Defensa; El País; Cinco Días; Información Comercial Española; www.mde.es; www.negocios.com; and trade interviews.

∗Note: Exchange rates used varied throughout the years;
(1999) $1 = Pesetas 156.33
(2000) $1 = Pesetas 181
(2001) $1 = Pesetas 190

TRADE PROMOTION OPPORTUNITIES:

The Commercial Service Spain offers a whole range of products and services for U.S. companies seeking business partners in Spain. These services include up-to-date market information, assessment of a U.S. firm's product sales potential, identification of potential representatives, individual counselling, trade missions, setting up appointments with screened firms, etc.

For additional information on the products and services provided by CS Spain, we invite you to contact our new website www.usatrade.gov.

For Military/Defense products, related questions and information, feel free to contact:

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For more information on the products and services provided by BuyUSA, we invite you to contact our new website http://www.buyusa.com.

SHOWCASE EUROPE MILITARY/DEFENSE EQUIPMENT

The Military/Defense sector has been designated one of the strategic sectors under the showcase Europe (SCE) program with CS Paris as the Sector Coordinator. Showcase Europe provides market information, organizes European teams to attend defense exhibitions in the U.S. and Europe, and provides a Showcase Europe website (www.sce.doc.gov.) containing a country-by country directory with key contacts. The website also includes a directory for the domestic Commercial Service offices. These offices can provide country-specific market reports and individual counseling. The SCE homepage is available free of charge to U.S. companies/organizations and their overseas offices. For more information please contact your local U.S. Commercial Service Office or:

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